

PURCHASED SERVICE CREDIT FAQs

What is the purchased service credit program?

The 2004 Legislature created an act allowing eligible members to purchase additional service credit in order to increase their monthly retirement benefit. Service credit purchased through this program is not membership service, and cannot be used to qualify for retirement.

Who is eligible for the purchased service credit program?

Members of the Public Employees' Retirement System (PERS) Plans 2 and 3 and members of the School Employees' Retirement System (SERS) Plans 2 and 3 who qualify, based on membership service, and are retiring using the early or alternate early retirement rules.

How much service credit can I purchase?

You may make a one-time purchase of up to five years of service credit in whole month increments.

What does it cost to purchase service credit?

If you decide to purchase additional service credit, you must pay, in a lump sum, the actuarial equivalent value of the resulting increase in your benefit payment. The actuarial equivalent value means the lump-sum amount needed, at the time of retirement, to pay for the increased monthly benefit over your lifetime. To determine what the lump-sum amount will be, you first determine the difference between your monthly benefit with, and without, the purchased service credit. Once you have that number, you divide it by the factor from the table provided by the State Actuary. The following example illustrates how this would work: *

Dolores is a PERS Plan 2 member who is 60 years of age, has 22 service credit years (SCY) and qualifies for an early retirement. Her average final compensation (AFC) is \$2,500 per month. Her reduction factor for early retirement (ERF) is 0.6100. She wants to purchase five additional years of service credit.

Step one is to calculate her benefit *without* the purchased service credit. The formula is: $2\% \times \text{AFC} \times \text{SCY} \times \text{ERF} = \text{monthly benefit amount}$.

In Dolores' case, that would mean:

$$2\% \times \$2500 \times 22 \times 0.61 = \$671.00$$

The second step is to calculate her benefit *with* the purchased service credit

$$2\% \times \$2500 \times \mathbf{27} \times 0.61 = \$823.50$$

The third step is to subtract the amount of her benefit *without* the purchased service credit from her benefit *with* the purchased service credit.

$$\$823.50 - \$671.00 = \$152.50$$

The final step is to divide the difference between the two by the factor from the State Actuary's table. This will show the cost of purchasing the additional service credit.

$$\$152.50 / 0.0063959 = \$23,843.40$$

When can I apply?

You must apply for the purchased service credit at the time you apply for early or alternate early retirement. The application must be in writing on a form supplied by the Department of Retirement Systems.

When do I pay for the purchased service credit?

Payment is made at the time of retirement.

How do I pay?

Payment may be made with an eligible rollover, a direct rollover or a trustee-to-trustee transfer from an eligible retirement plan. You may also use after-tax dollars, such as those from a personal savings account. IRS regulations, however, limit the amount of after-tax dollars you can use for this type of purchase. If the cost of the service credit you want to purchase is greater than your limit, you must use one of the other fund sources or purchase a smaller amount of service credit.

* The factors are age and system/plan based and taken from a 1995-2000 actuarial experience study.